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OUTCOMES OF THE 13th SERIES AUSTRALIAN CONSUMER PRICE INDEX REVIEW

BACKGROUND

To ensure that the CPI continues to meet community needs, the ABS reviews the CPI at about five yearly intervals. These reviews update item weights and provide an opportunity to reassess the scope and coverage of the index and other methodological issues.

The most recent review was undertaken in 1997. A 13th Series CPI Advisory Group, which included representatives from Commonwealth and State government departments, the business community, academia and community organisations, assisted the ABS in the review.

ISSUES

To begin the review, the Information Paper Issues To Be Considered During The 13th Series Australian Consumer Price Index Review (6451.0) was made available by the ABS in May 1997 to highlight and provide background on the particular areas that would be considered during the review.

The issues covered included:

- the purpose of the CPI;
- the frequency of its calculation and publication;
- population coverage;
- classification of commodities, including specifically the creation of a new commodity group to cover financial services;
- item coverage;
- the demand for and relevance of analytical series such as State and Local Government Charges and Imported vs Domestic Goods; and
- the demand for spatial price indexes which compare price levels between regions rather than between time periods.

OUTCOMES

In November 1997 the decisions taken in the review were published in the Information Paper Outcome of the 13th Series Australian Consumer Price Index Review (6453.0). The majority of the changes made as a result of the review were incorporated into the September quarter 1998 CPI.

A summary of the main outcomes is outlined below.

Principal purpose and population coverage

The most important finding of the 13th Series CPI Review was that the context in which the CPI is used has changed:

- Containing inflation, and the shaping of inflationary expectations of the Australian population, is attracting much more focus as an economic policy imperative.
- Since 1993, the Reserve Bank of Australia has administered monetary policy with the objective of keeping underlying inflation between 2 and 3 per cent, on average, over the cycle. (Subsequent to the Statistician announcing the decisions taken on the 13th Series CPI, the Reserve Bank has advised that it will henceforth administer monetary policy with the objective of maintaining an average rate of inflation, as measured by the CPI, of 2 to 3 per cent over the medium term.)
- There has been a continuing trend towards decentralised, enterprise level wage and salary setting arrangements with the outcomes focused on the commercial circumstances of individual businesses. From employees' perspectives, these arrangements have focused attention on more forward looking inflationary expectations rather than on past 'catch-up' approaches. (Centralised safety net arrangements continue to apply for those employees unable to take advantage of enterprise bargaining arrangements.)
- The absolute reliance of most social welfare beneficiaries on the CPI for indexation of their incomes has changed with the passing of the Social Security and Veterans' Affairs Amendment (Male Total Average Weekly Earnings Benchmark) Bill 1997, which provides for adjustments should the maximum rate of the CPI-adjusted single adult pension fall below 25% of Male Total Average Weekly Earnings.

Taking these changes into consideration it was decided that the Australian community would now be better served by a CPI designed specifically to provide a general measure of price inflation for the household sector as a whole. The CPI reference population has been extended to cover all private households in capital cities.

Item coverage and commodity classification

The most noticeable changes to the item coverage resulting from the review were the exclusion of mortgage interest and consumer credit charges from the index and the inclusion of expenditure on new dwellings (excluding land).

The sample of items covered by the CPI was also updated to better reflect the current expenditure of the target population. Additions to the sample included Computing equipment, Tertiary education fees and Domestic services.

A number of classification changes were made to update some of the expenditure class titles. For example, Telephone services was changed to Communication services, enabling the inclusion of faxes, and other forms of communication, such as e-mail, as they become significant. Some expenditure classes were amalgamated or removed where expenditure had become insignificant since the last review. For example, Butter no longer has its own expenditure class, but is included in the Fats and oils expenditure class.

A new subgroup, Utilities, comprising items previously grouped under separate headings, was added to the Housing group. The Selected State and Local Government Charges Index has been dropped as it has become less relevant following the corporatisation and privatisation of many previously State-run enterprises.

A Financial Services group is expected to be introduced to the CPI in the year 2000. This group will measure the changes in the prices paid by households for a range of services including those incurred in respect of borrowings, savings, maintenance of accounts with financial institutions, accessing investment advice and the purchase of shares etc. These measures will cover both direct fees and charges and indirect costs incorporated in the interest rate margins of financial

intermediaries.

For more detail on the changes made to the item coverage and commodity classification for the 13th Series CPI see the Appendix to Consumer Price Index Australia (6401.0) for the June or September quarter 1998.

Special series

A new 'Tradeables vs Non-Tradeables' index will be developed which will differentiate between items according to whether or not their prices are influenced predominantly by world market prices. This index will replace the price index of imported items used mainly by the Reserve Bank of Australia as a measure of the impact of world markets on Australian inflation.

Other

User input to the review did not indicate that monthly calculation and publication of the CPI was a high priority given the high additional costs that would be incurred. It was therefore decided that the CPI would continue to be calculated and published quarterly.

An assessment of costs and benefits concluded that, while there was some support for an extension of the CPI coverage beyond capital cities, this was not sufficient to justify the additional expense.

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